

FARM FINANCIAL CRISIS:
HOW THE CURRENT SITUATION DEVELOPED

GUIDELINES AND RESOURCE MATERIALS
FOR EDUCATIONAL MEETINGS

BY

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ELEMENTS OF THE SITUATION

INFLATION

LAND PRICES

PRICES RECEIVED/PAID

INTEREST RATES

DEBT CAPITAL

NET CASH INCOME

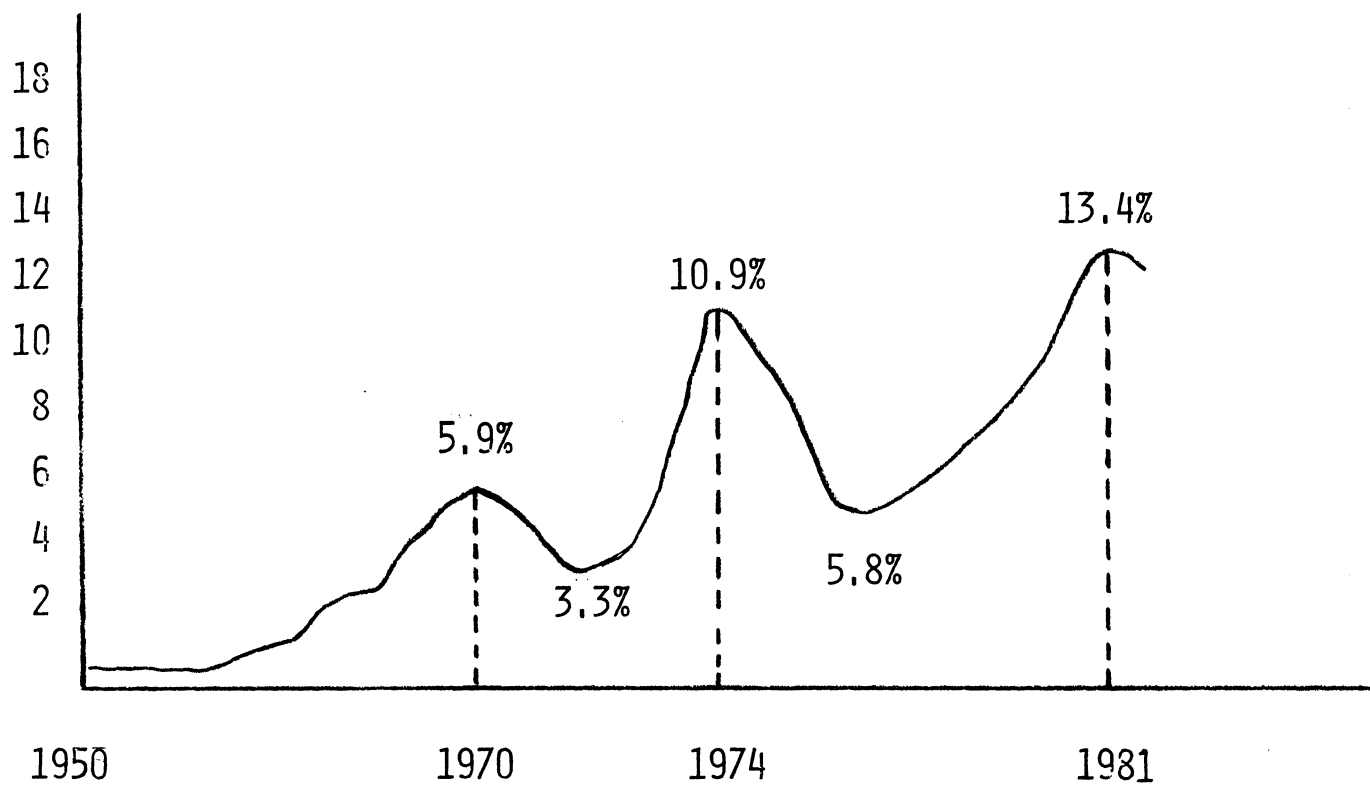
ANNUAL RATE OF INFLATION

U.S. 1950 - 1981

YEAR(S)	PERCENTAGE CHANGE
	IN CPI
1950 - 1954	.5
1955 - 1960	.5
1961 - 1965	1.4
1966	2.8
1967	2.9
1968	4.2
1969	5.4
1970	5.9
1971	4.3
1972	3.3
1973	4.6
1974	10.9
1975	9.8
1976	5.8
1977	6.5
1978	7.7
1979	11.4
1980	13.4
1981	13.1

CPI MEASURED IN JULY

PERCENT
INFLATION



ANNUAL INFLATION RATE
U.S. 1950 - 1981

WHERE IS THE NEXT PEAK ?

INFLATION AND LAND PRICES
INDEX OF PRICES
(1967 = 100)

YEAR	CPI	FARMLAND VALUE/ACRE	
		U.S.	OHIO
1960	68	72 (\$128)	73 (\$242)
1965	86	87	87
1966	93	94	93
1967	100	100	100
1968	104	107	106
1969	110	113	110
1970	116	117	115
1971	121	122 (\$217)	120 (\$398)
1972	125	132	127
1973	133	150	147
1974	148	187	184
1975	161	213	208
1976	170	242	252
1977	181	283	331
1978	190	308	373
1979	217	351	448
1980	246	410	506
1981	278	447 (\$796)	521 (\$1717)

LAND PRICE

1967-71 -- INFLATIONARY INCREASE

1972-75 -- INCREASE GREATER THAN INFLATION
OHIO INCREASE LAGS U.S.

1975-81 -- INCREASE MUCH GREATER THAN INFLATION
OHIO INCREASE LEADS U.S.

FARM DEBT CAPITAL AND INFLATION
ANNUAL RATES OF GROWTH
U.S. 1950-1980

TIME PERIOD	AVERAGE ANNUAL PERCENTAGE	
	DEBT CAPITAL	INFLATION
1950s	7.1	.5
1960s	7.9	2.3
1970s	11.7	7.0
1975 - 1979	14.4	8.2

FARM DEBT HAS BEEN GROWING
FASTER THAN INFLATION

GROWTH IN FARM DEBT HAS SLOWED
DURING 1980 AND 1981

SINCE 1970 FARMING HAS BEEN FASTEST
GROWING SECTOR OF U.S.
CREDIT MARKET

DIFFERENT REASONS FOR GROWTH

OF DEBT CAPITAL

1950 - 1970

1970 - 1981

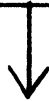
PERIOD 1950 - 1970 --- STRUCTURAL CHANGE

RAPID DECLINE IN FARM NUMBERS

RAPID INCREASE IN FARM SIZE

LABOR LEFT FARMING

LABOR TOOK ITS EQUITY CAPITAL



MECHANIZATION/MODERNIZATION

REQUIRED LARGE AMOUNTS

OF DEBT CAPITAL

PERIOD 1970-1981 --- ASSET INFLATION

SLOWER DECLINE IN FARM NUMBERS

SLOWER INCREASE IN FARM SIZE

INCREASED RATE OF INFLATION

INCREASED NET CASH INCOME

STRONG DEMAND FOR FARMLAND



HIGHER PRICED FARM ASSETS

REQUIRED LARGE AMOUNTS

OF DEBT CAPITAL

WHY HAVE FARM ASSETS INCREASED
RAPIDLY IN RECENT
YEARS?

GENERAL ECONOMY

-- INFLATION

FARM ECONOMY

-- PERIOD OF HIGH NET CASH

GOOD YIELDS

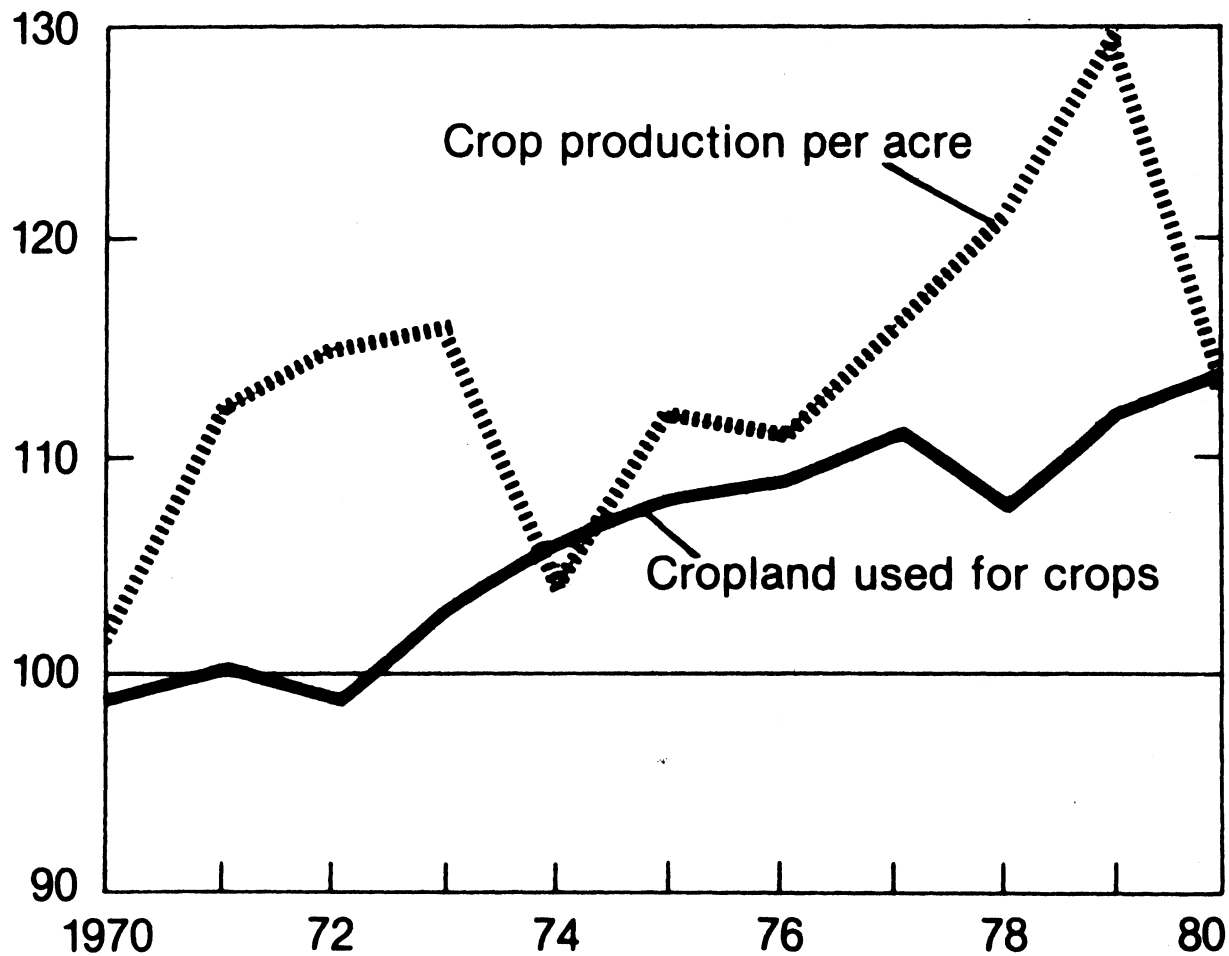
GOOD PRICES

GOOD PROFITS

-- HIGH NET CASH = HIGHER LAND PRICE

Crop Production per Acre and Cropland Used for Crops

% of 1967



1980 preliminary.

CROP YIELDS HAVE BEEN HIGH AND
INCREASING DURING RECENT YEARS

Income from Farming

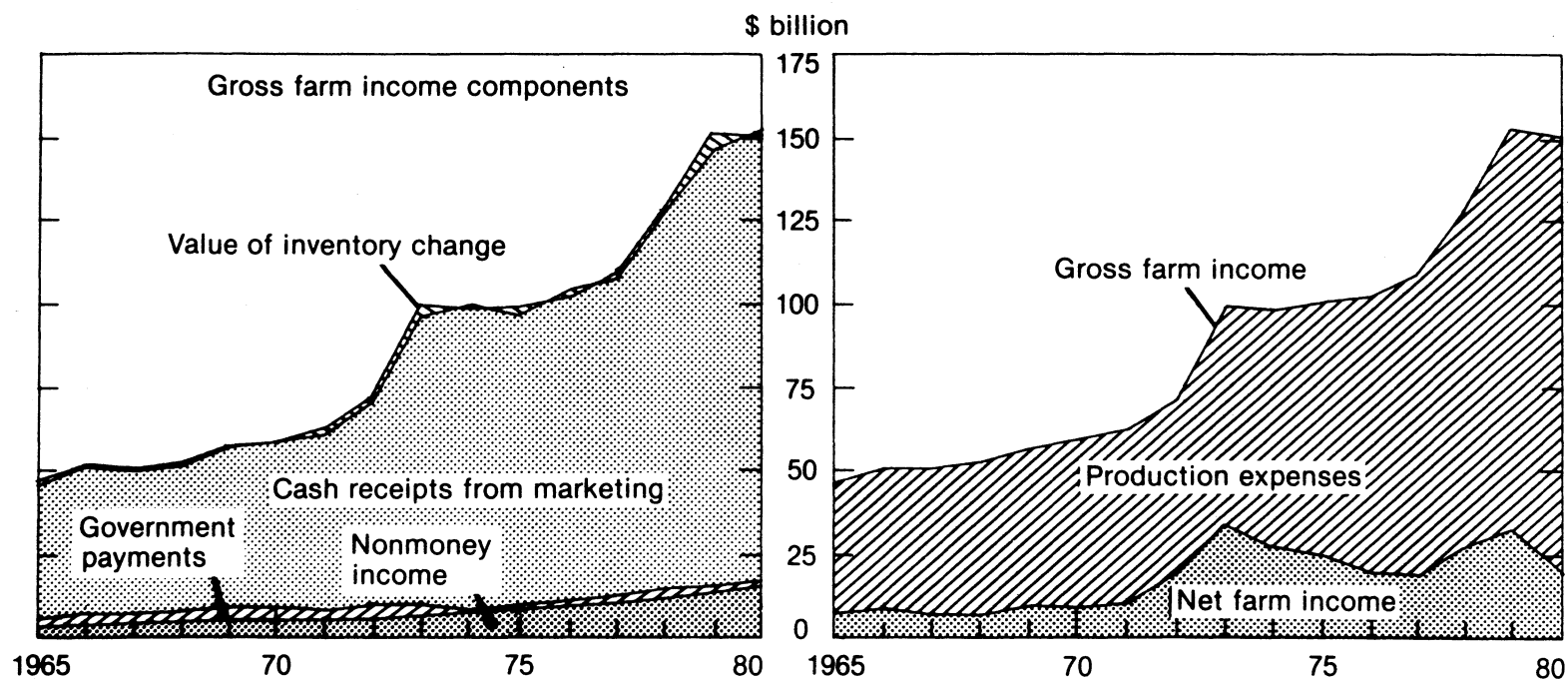
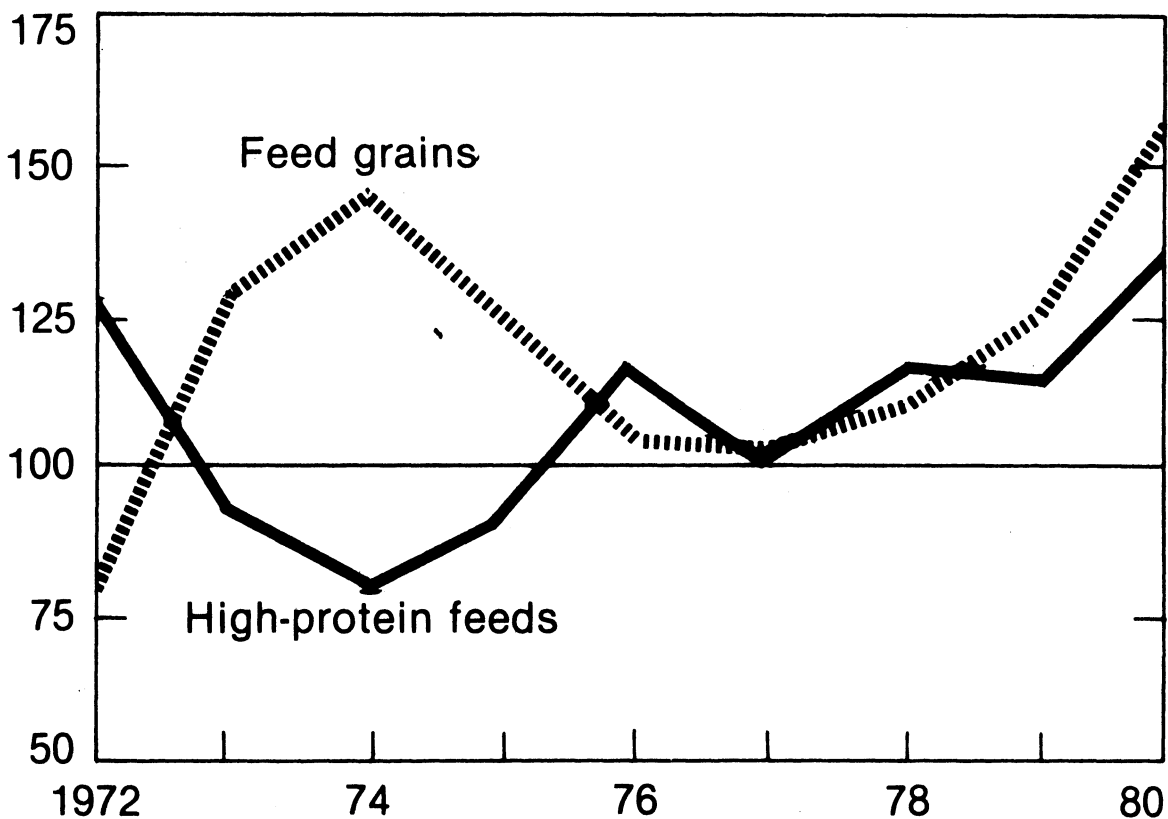


Chart 8

Feed Grain and High-Protein Feed Prices

% of 1977



Prices for feed grains are those received by farmers. High-protein feed prices are wholesale at principal markets. Year beginning October 1. 1980 based on October-June average; preliminary.

U.S. FEED GRAIN PRICES INCREASED RAPIDLY

1972 - 1974

1977 - 1981

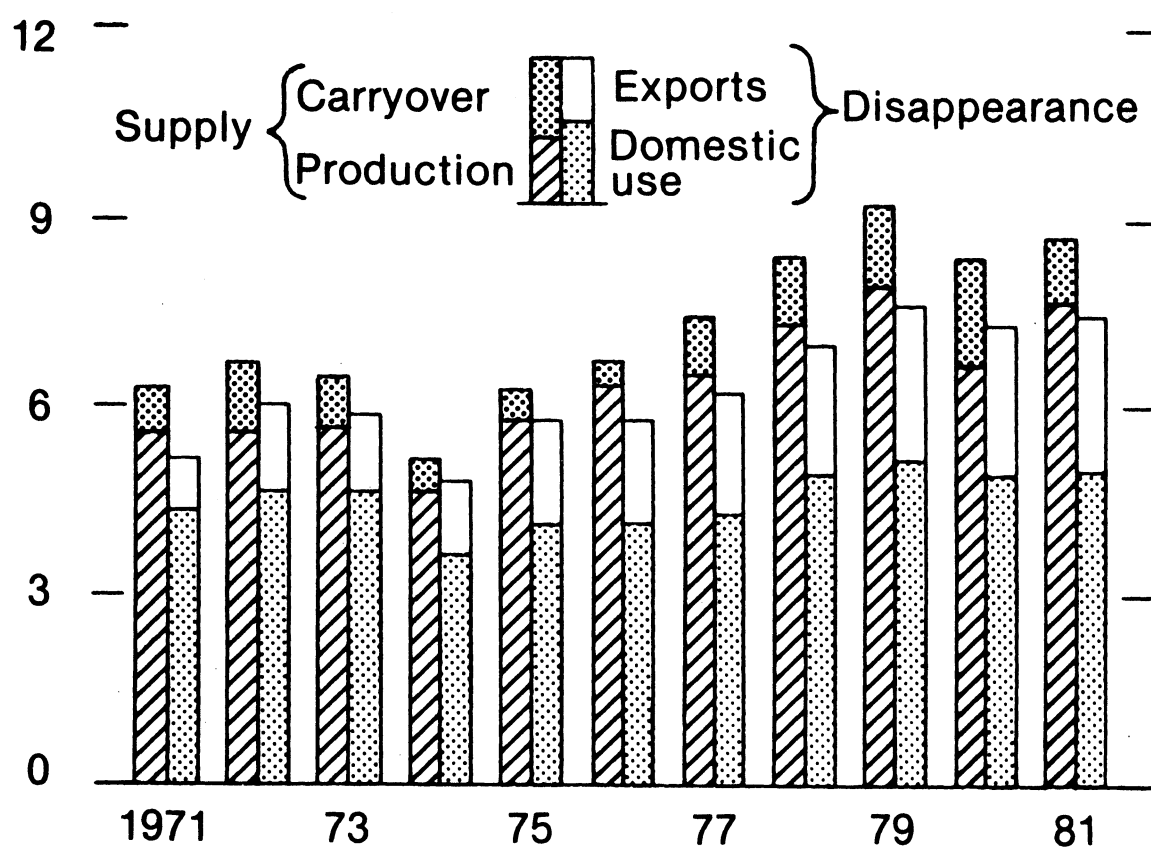
U.S. PROTEIN FEEDS PRICES INCREASED STEADILY

1974 - 1981

Chart 234

Corn Supply and Use

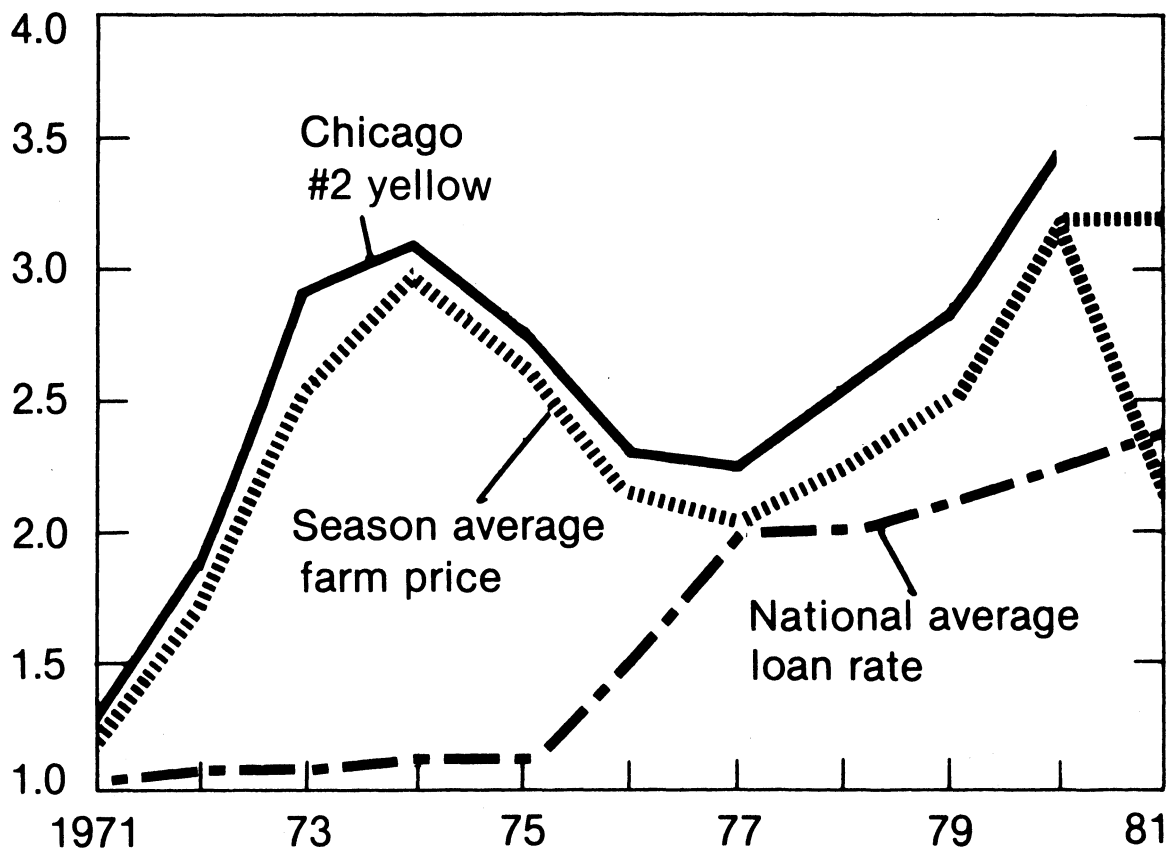
Billion bushels



Supply includes imports. Year beginning October 1.
1980 estimated; 1981 projected.

Corn Prices

\$ per bushel



Year beginning October 1. 1980 estimated; 1981 projected. 1980 Chicago #2 yellow based on October-July average.

U.S. CORN PRICES INCREASED RAPIDLY

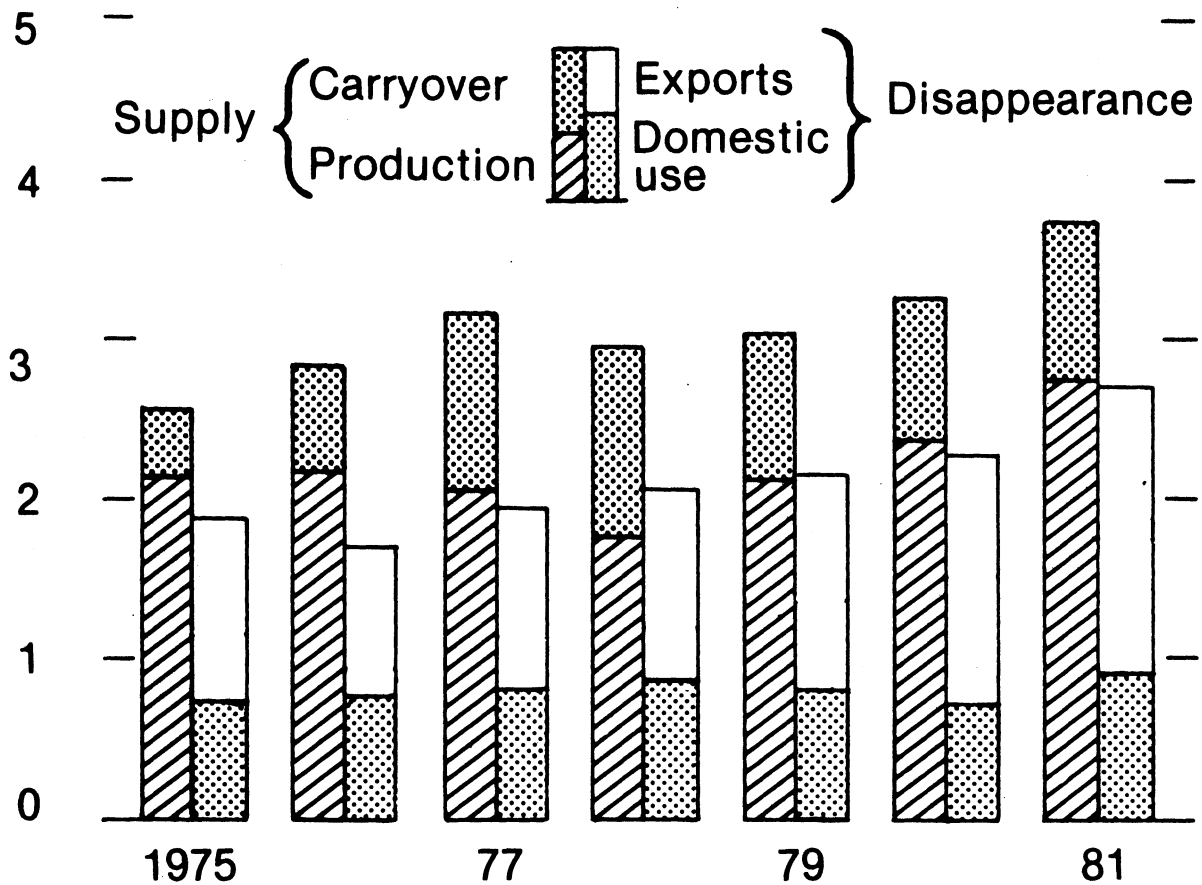
1971 - 1974

1977 - 1981

Chart 236

Wheat Supply and Disappearance

Billion bushels



Supply includes imports. Year beginning June 1.
1980 preliminary; 1981 projected.

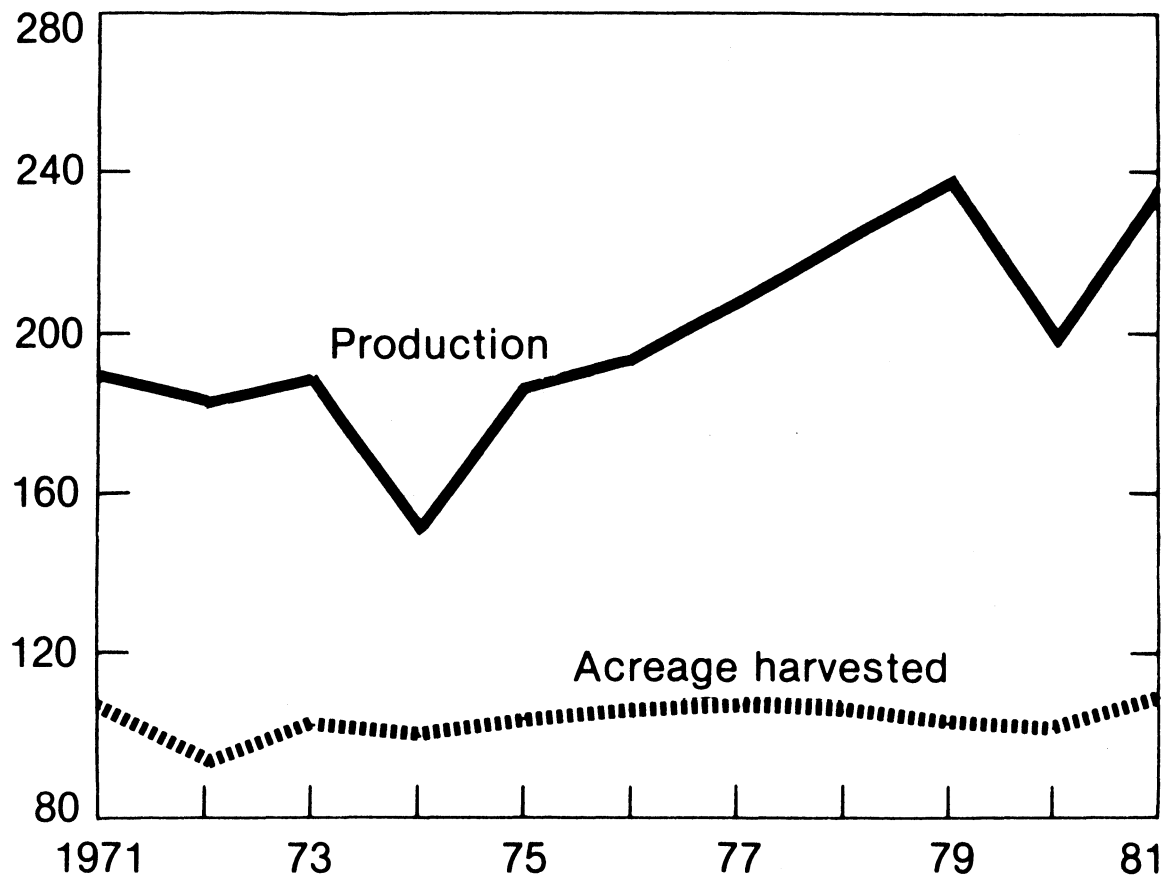
CORN AND SOYBEAN PRICES
OHIO

YEAR	DOLLARS PER BUSHEL	
	CORN	SOYBEAN
1970	\$1.27	2.64
1971	1.28	2.97
1972	1.17	3.31
1973	1.94	6.44
1974	3.00	6.46
1975	2.67	5.24
1976	2.49	5.60
1977	2.02	6.80
1978	2.15	6.39
1979	2.48	7.03
1980	2.78	6.84
1981	2.97	6.99

CROP PRICES IN OHIO HAVE
FOLLOWED NATIONAL TRENDS

Feed Grain Acreage and Production

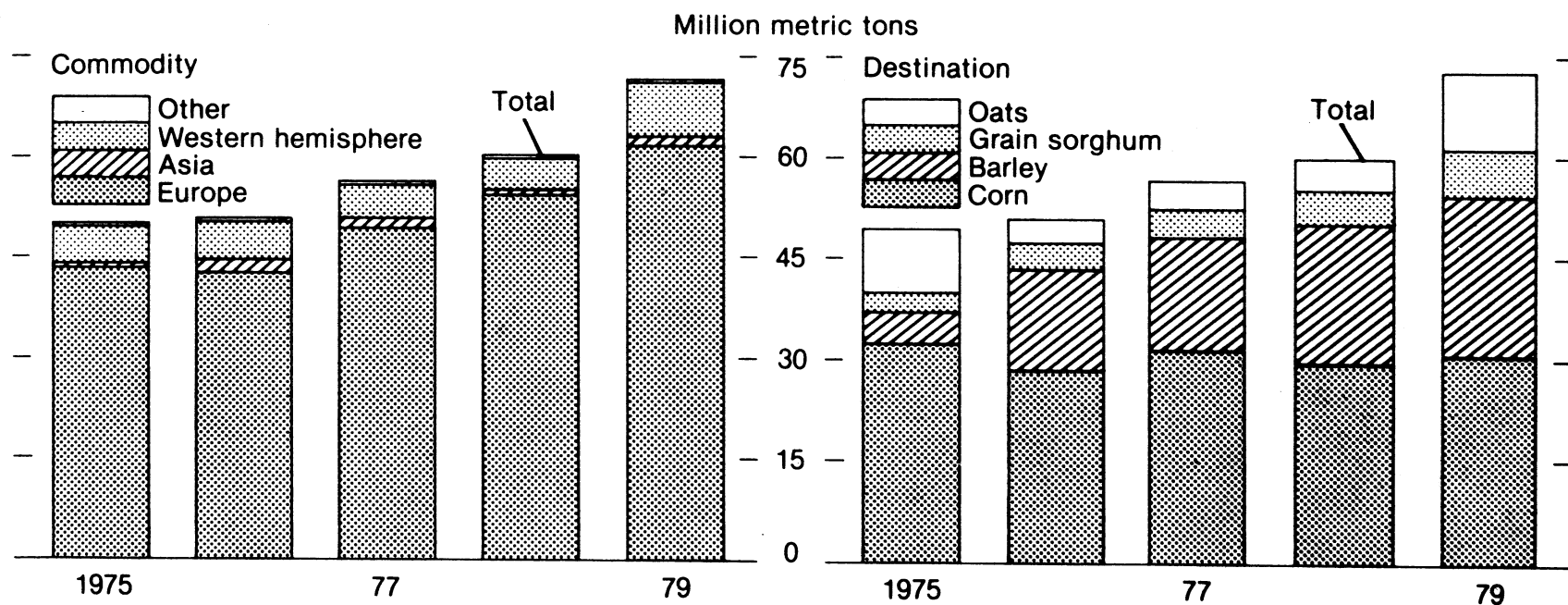
Million metric tons or acres



1981 based on August intentions.

TOTAL FEED GRAIN PRODUCTION
HAS BEEN INCREASING DURING PERIOD
OF HIGHER PRICES

U.S. Exports of Coarse Grains



Marketing year beginning October 1 for corn, sorghum and destination, and June 1 for barley and oats. Includes corn and cornmeal for relief, hominy and grits, cornstarch and barley meal.

CROP PRODUCTION PROFITS
OHIO 1976 - 1981

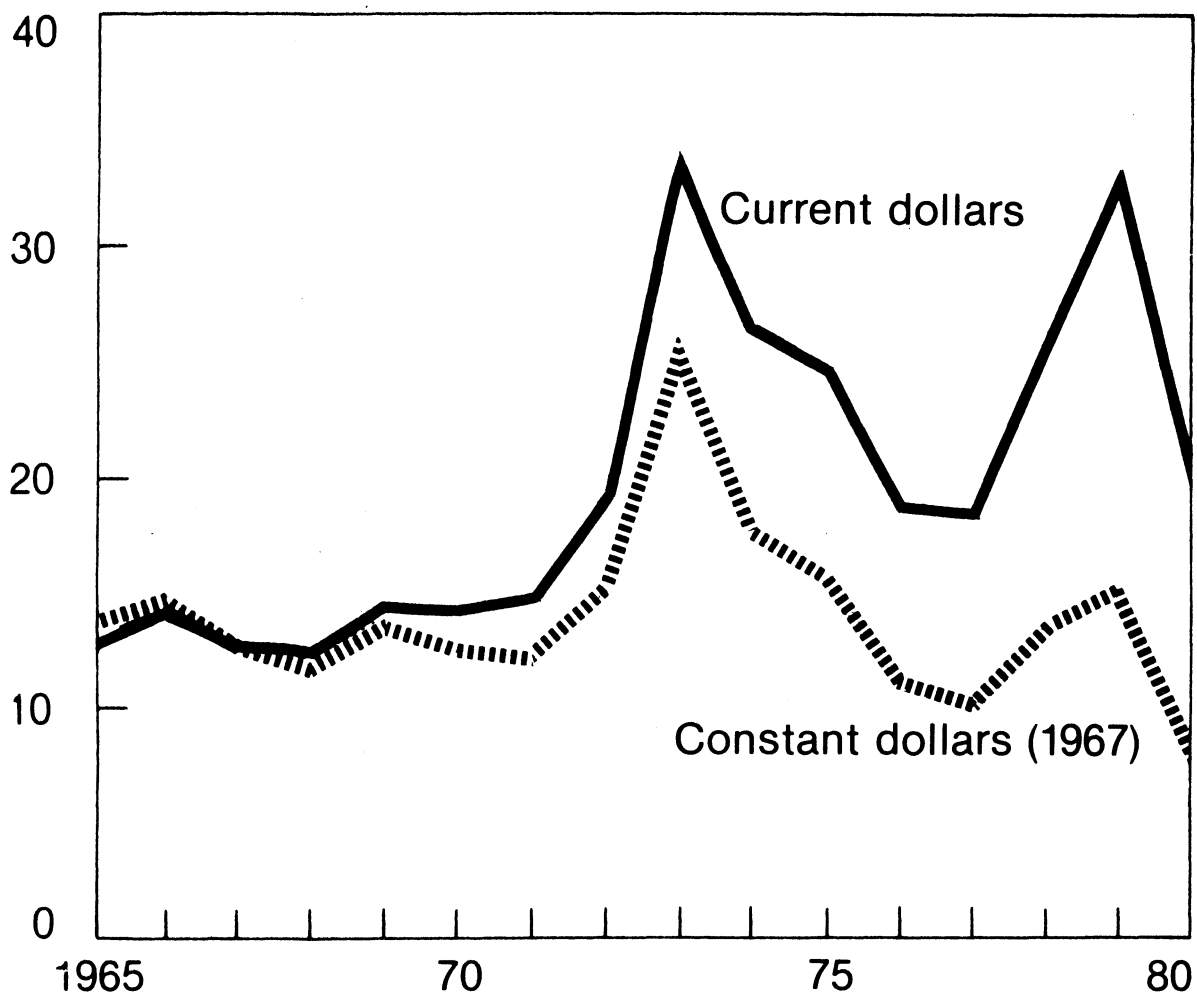
CROP ITEM	PER BUSHEL VALUES					
	1976	1977	1978	1979	1980	1981
CORN						
TOTAL COST	\$1.82	\$1.95	\$1.79	\$2.44	\$2.72	\$3.00
VALUE	2.42	2.04	2.14	2.45	3.12	3.00
PROFIT	<u>.60</u>	<u>.09</u>	<u>.35</u>	<u>-.01</u>	<u>.40</u>	<u>0</u>
SOYBEANS						
TOTAL COST	\$4.50	\$4.19	\$4.79	\$5.32	\$6.45	\$7.00
VALUE	6.54	5.83	6.36	6.53	7.38	7.00
PROFIT	<u>2.04</u>	<u>1.64</u>	<u>1.57</u>	<u>1.21</u>	<u>.93</u>	<u>0</u>

SOURCE: OHIO FARM RECORD SUMMARIES
1981 ESTIMATED

OHIO CROP FARMS HAVE BEEN
PROFITABLE DURING
RECENT YEARS

Net Farm Income

\$ billion



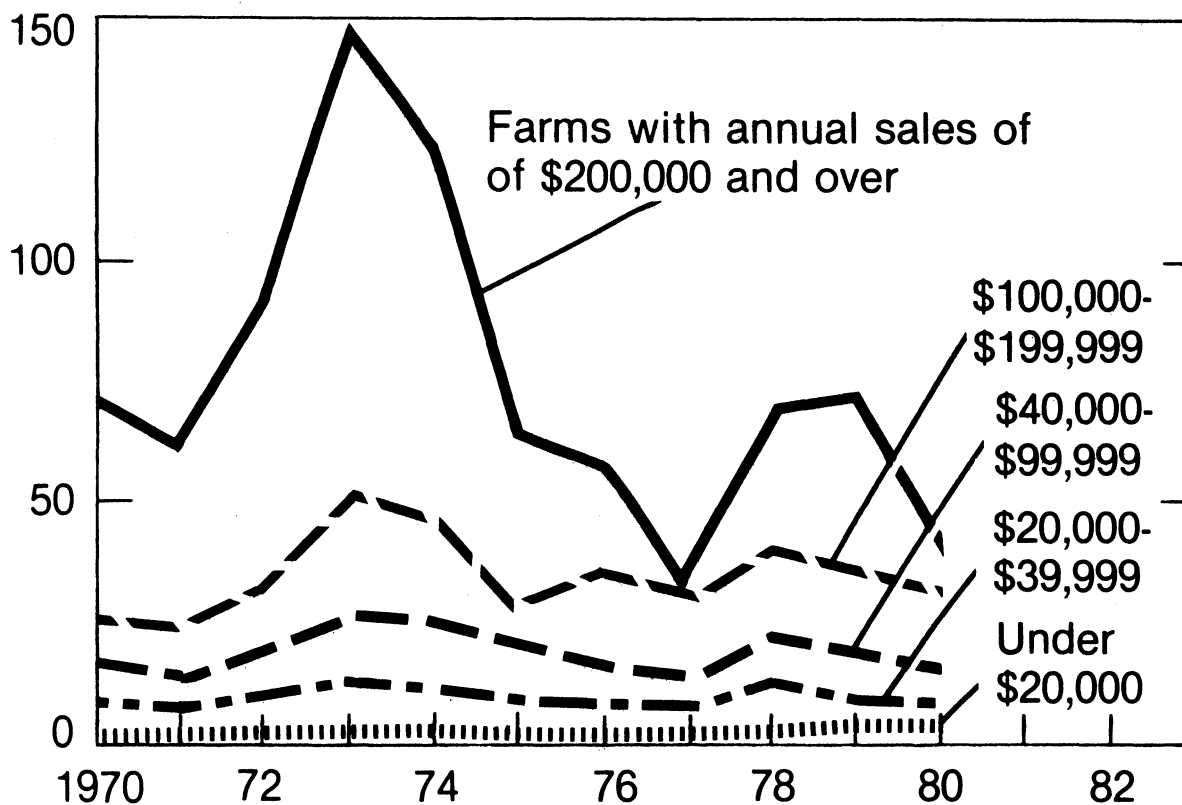
HIGH PRICES AND INCREASED PRODUCTION
HAVE RESULTED IN HIGHER
NET FARM INCOMES

INFLATION HAS ERODED VALUE HOWEVER

Chart 13

Average Net Farm Income by Sales Class

\$ thousand



Net income before adjustment for inventory change. Beginning in 1977, farm income data reflect a change in the farm definition from a place of 10 or more acres with \$50 in agricultural product sales and under 10 acres with \$250 in sales to a place with \$1,000 in sales.

FARM NET CASH INCOME
U.S. 1977 - 1981

YEAR	NET CASH INCOME
	(BILLIONS)
1977	\$25.3
1978	34.4
1979	37.6
1980	32.8
1981	31.4
1982	27.0 (ESTIMATED)

NET CASH INCOMES HAVE BEEN

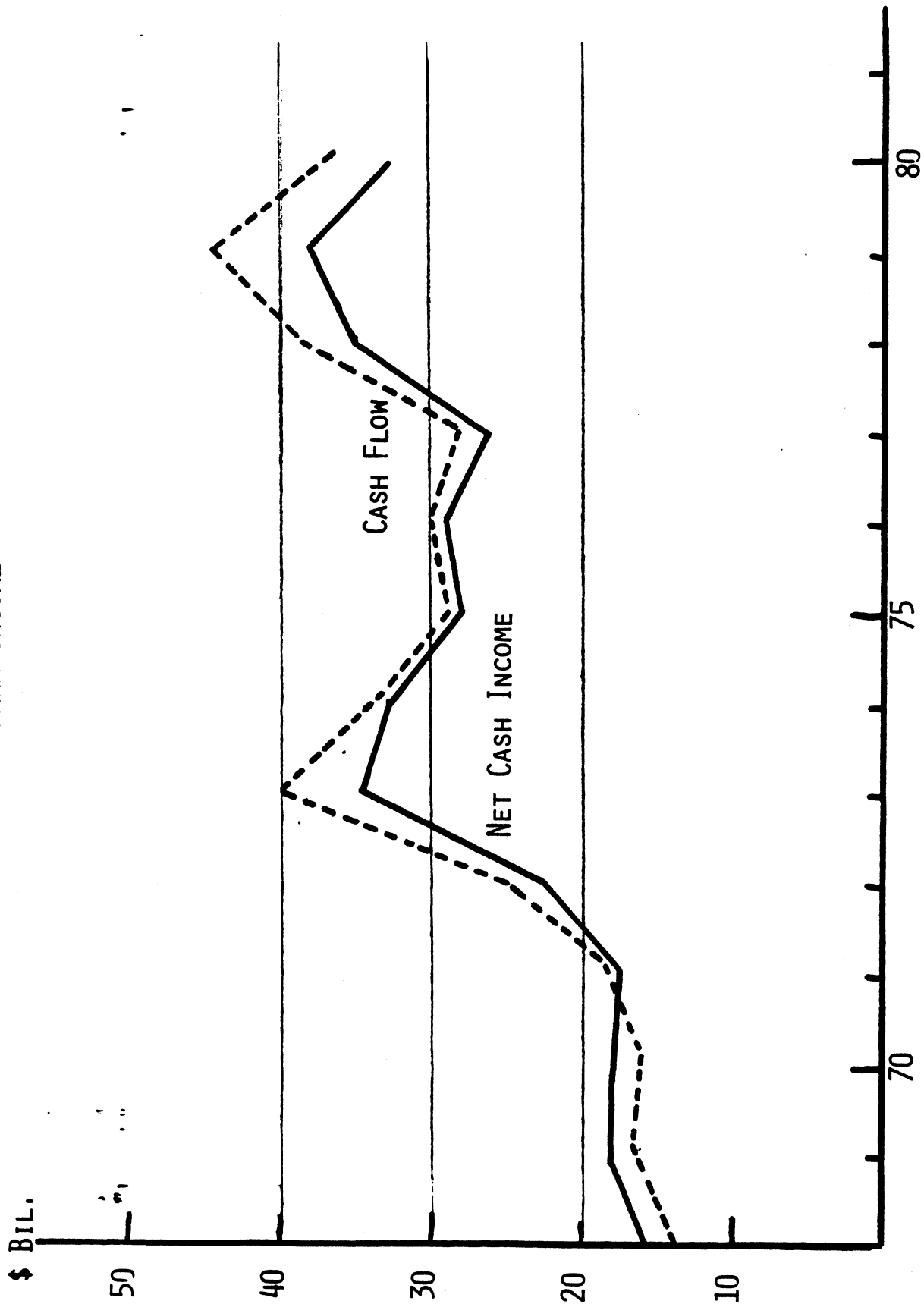
ABNORMALLY HIGH

1978 - 1981

19
9-17-81CASH INCOME

	1979	1980	1981
CASH RECEIPTS:			
CROPS	63.4	69.0	73.9
LIVESTOCK	<u>68.5</u>	<u>67.4</u>	<u>70.2</u>
TOTAL	131.9	136.4	144.1
GOVERNMENT PAYMENTS	1.4	1.3	1.4
OTHER CASH	<u>2.1</u>	<u>2.2</u>	<u>2.5</u>
TOTAL	135.4	139.9	148.0
CASH EXPENSES	<u>97.8</u>	<u>107.1</u>	<u>116.6</u>
NET CASH INCOME	37.6	32.8	31.4
LOANS:			
REAL ESTATE	10.9	8.6	10.0
OTHER	10.1	7.1	8.8
CURRENCY	0.1	0.0	0.0
RENT INCOME	<u>6.1</u>	<u>6.6</u>	<u>6.9</u>
TOTAL	64.8	55.1	57.1
CAPITAL EXPENSE	<u>19.9</u>	<u>18.4</u>	<u>19.0</u>
NET CASH FLOW	44.9	36.7	38.1

CASH FARM INCOME



LONG TERM INTEREST RATES
(FLBA)

YEAR	RATE PAID	AFTER TAX RATE	INFLATION RATE	REAL AFTER TAX RATE
1975	8.75	6.1	9.8	-3.7
1976	8.50	6.0	5.8	.2
1977	8.25	5.8	6.5	- .7
1978	8.50	6.0	7.7	-1.7
1979	9.50	6.7	11.4	-4.7
1980	10.50	7.4	13.4	-6.0
1981	11.50	8.1	13.1	-5.0

ASSUME 30% TAX BRACKET

RATE PAID ESTIMATED FROM GRAPH

LOW REAL AFTER-TAX INTEREST RATE
ENCOURAGED BORROWING

HIGHER RATES HAVE BEEN PAID
DURING SHORT PERIOD OF
DECLINING NET
CASH INCOME

INTERMEDIATE TERM INTEREST RATES
(PCA)

YEAR	RATE PAID	AFTER TAX RATE	INFLATION RATE	REAL AFTER TAX RATE
1975	9.00	6.3	9.8	-3.5
1976	8.50	6.0	5.8	.2
1977	7.75	5.4	6.5	-1.1
1978	9.00	6.3	7.7	-1.4
1979	10.50	7.4	11.4	-4.0
1980	12.50	8.8	13.4	-4.6
1981	14.00	9.8	13.1	-3.3

ASSUME 30% TAX BRACKET

RATE PAID ESTIMATED FROM GRAPH

LOW REAL AFTER-TAX INTEREST RATE
ENCOURAGED BORROWING

HIGHER RATES HAVE BEEN PAID
DURING SHORT PERIOD OF
DECLINING NET
CASH INCOME

INCENTIVES TO BORROW
DURING RECENT YEARS

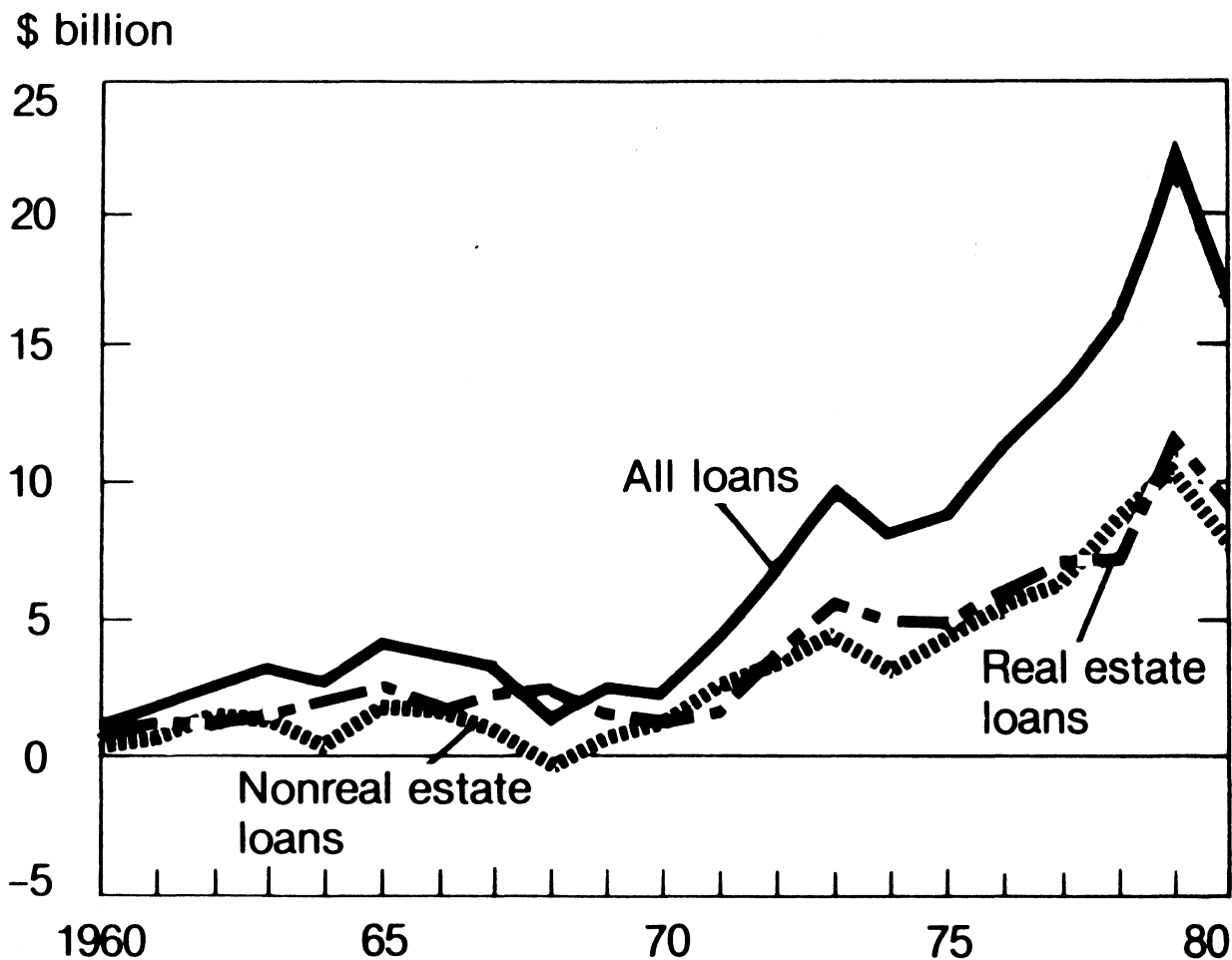
INCREASING PRICES
INCREASING YIELDS
INCREASING NET CASH
INCREASING INFLATION
DECLINING REAL AFTER-TAX INTEREST

BORROWED CAPITAL FOR EXPANSION
WAS THE KEY TO SUCCESS

EXCEPT

MANY FARMERS BEGAN TO VIEW
ABNORMALITIES AS NORMAL

Annual Change in Farm Debt

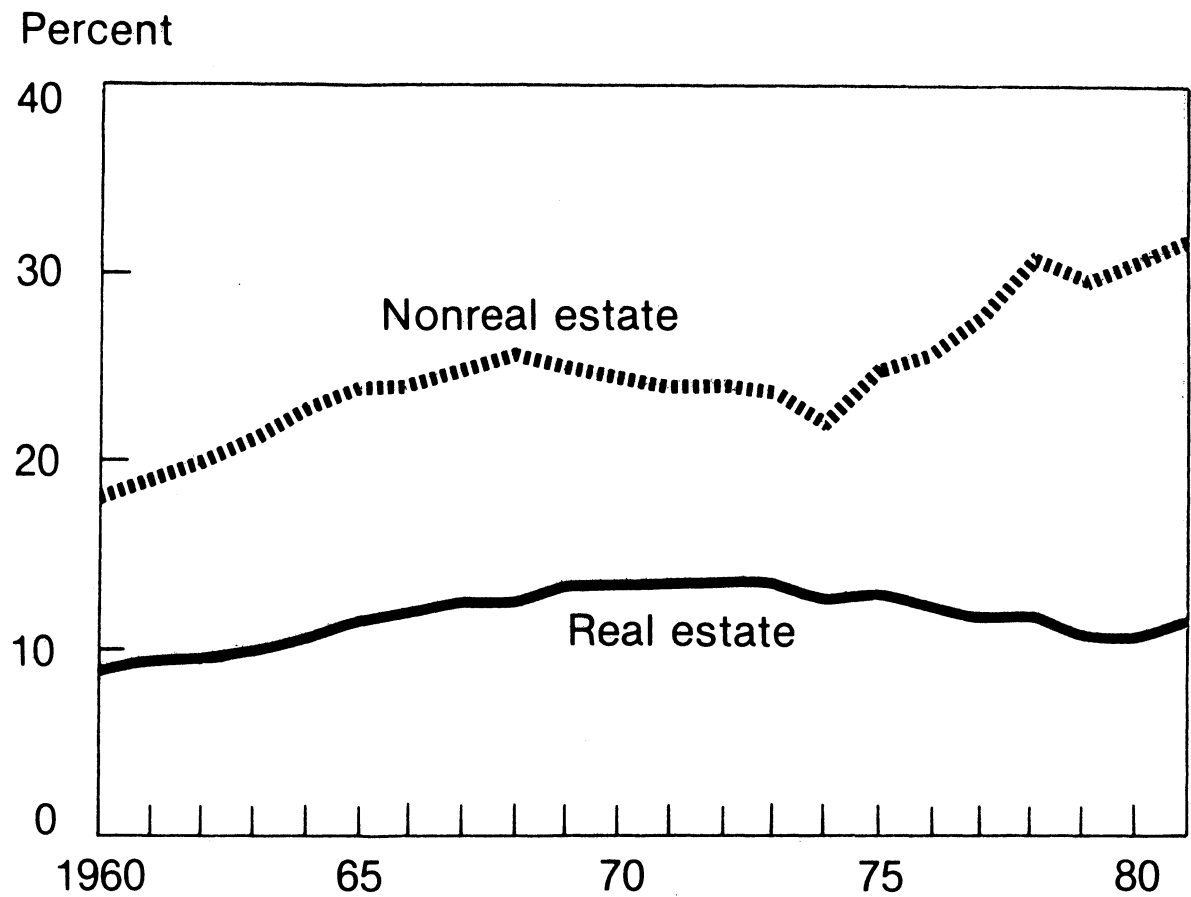


Difference between debt outstanding at beginning and end of year.
Excludes Commodity Credit Corporation loans. 1980 preliminary.

FARMERS ADDED TO THEIR DEBT
VERY RAPIDLY DURING
DECADE OF 70s

Chart 17

Farm Debts as Percentage of Assets

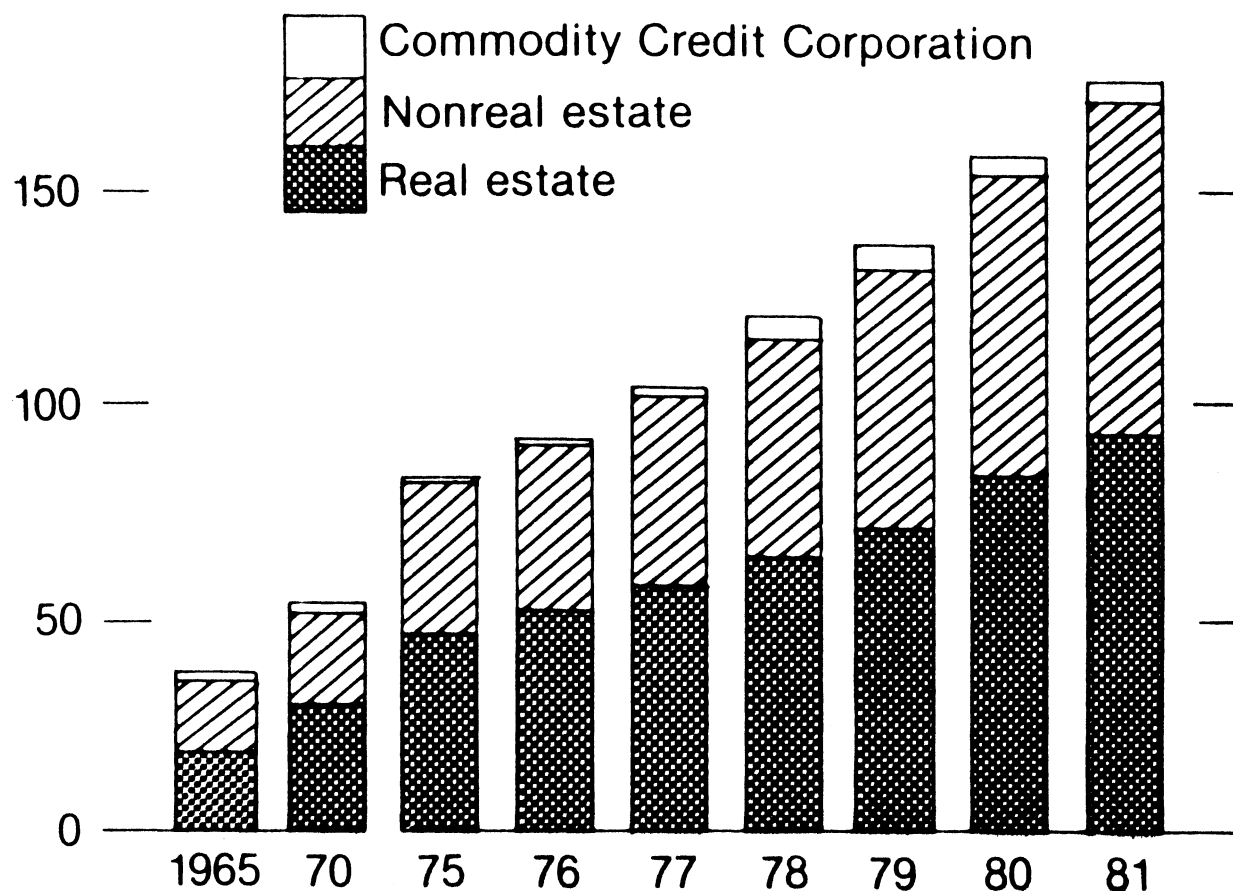


Debt is shown as percentage real estate debts to real estate assets and percentage nonreal estate debts to normal estate assets. Data as of January 1.

Farm Debt

\$ billion

200 —

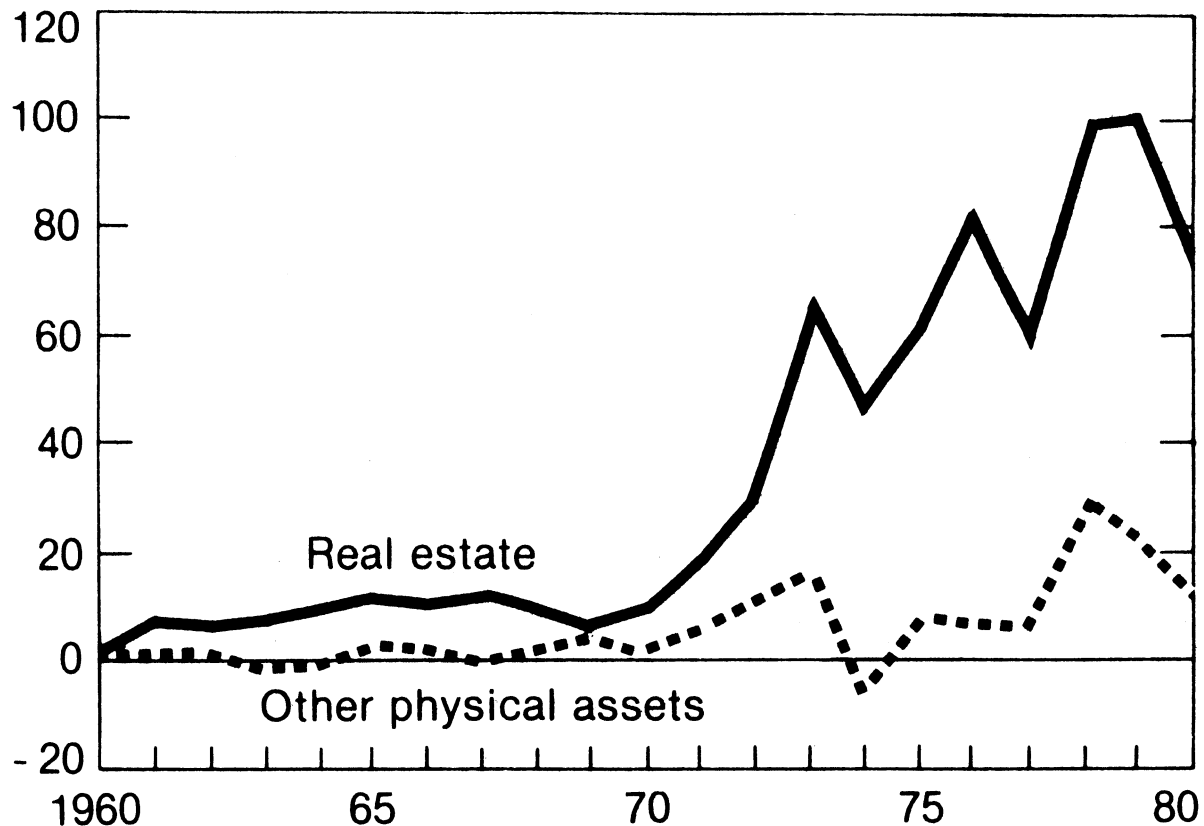


Farm loans outstanding January 1, 1981 preliminary.

ASSETS ALSO INCREASED
A VERY SOLID BALANCE SHEET
OWNER EQUITY INCREASED 350%
A PERIOD OF VERY
SAFE LOANS

Capital Gains

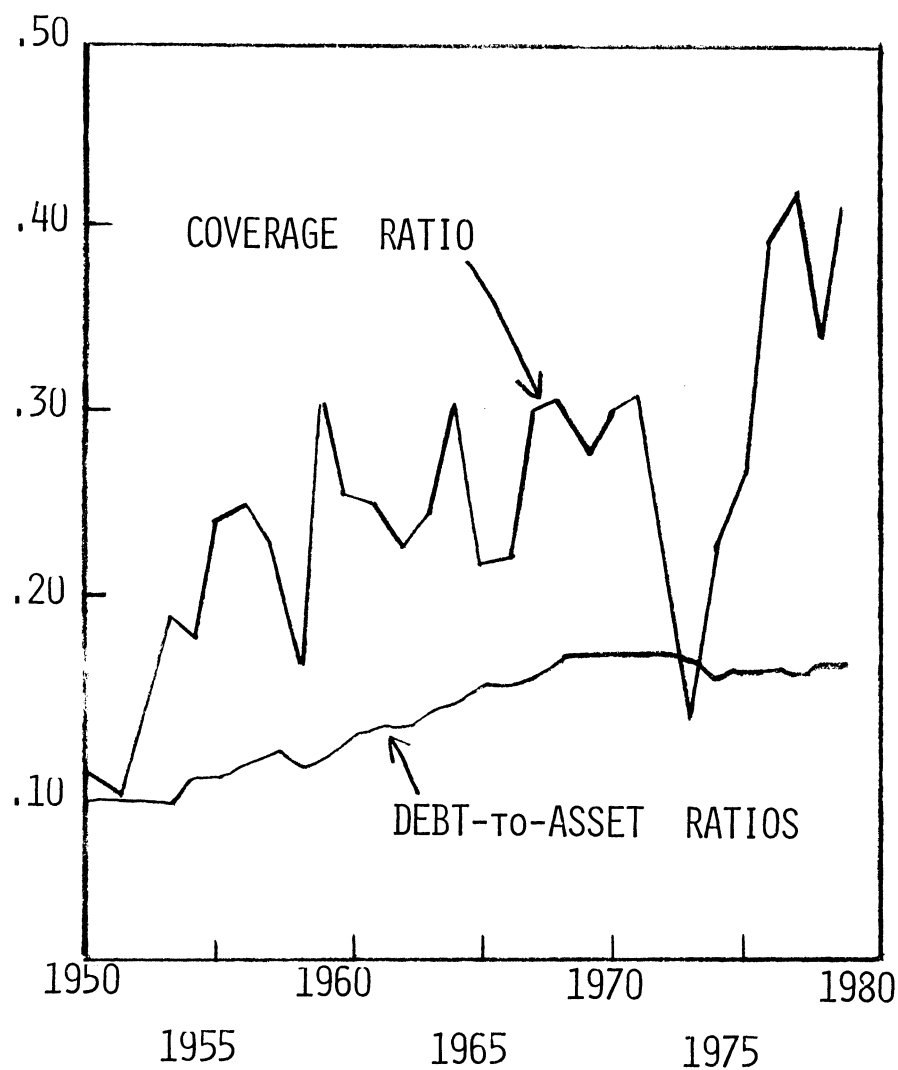
\$ billion



Changes in farm real estate values less yearly improvements; mostly unrealized. Other physical assets includes machinery and motor vehicles, livestock and poultry, and crops stored on farms.

A LARGE PORTION OF INCREASED
ASSETS CAME FROM
CAPITAL GAINS
CAPITAL GAINS PROVIDED COLLATERAL
FOR MORE LOANS BUT WILL
NOT SERVICE DEBT

ANNUAL COVERAGE RATIOS AND
DEBT-TO-ASSET RATIOS, 1950 - 1980



SOME INDICATION, HOWEVER, THAT
LOANS HAVE NOT BEEN
SOUND

CURRENT FARM FINANCIAL POSITION
IS A PARADOX

1. HIGHLY SOLVENT
DUE TO UNREALIZED CAPITAL GAINS
THAT HAVE COLLATERALIZED
GROWTH IN DEBT
2. LIQUIDITY AND CASH FLOW PROBLEM
RESULTING FROM LOW AND VOLATILE
CURRENT RATES OF RETURN

THE CURRENT FINANCIAL CRISIS
ON FARMS HAS BEEN DEVELOPING
FOR THE PAST TEN YEARS

WE KNEW IT WAS COMING BUT
DIDN'T KNOW WHEN

INFLATION
OVER OPTIMISTIC
INCREASED NET CASH
LOW BORROWING COST
BORROWING ON CAPITAL GAIN
ABNORMAL VIEWED AS NORMAL

IT'S HERE NOW AND WILL
LIKELY WORSEN

